Chapter 4

Requesting, Managing, and Returning Title IV Funds

Summary

This chapter contains guidelines that schools must follow to ensure sound cash management practices. Much of the information in this chapter is based on cash management regulations published on December 1, 1994 and November 29, 1996 (34 CFR 668, Subpart K). These regulations establish uniform rules and procedures that a school must follow to request, maintain, disburse, return, and otherwise manage Title IV program funds.

Key Terms

Accounts Receivable Management Group (ARMG)
Automated Clearinghouse/Electronic Funds Transfer (ACH/EFT)
advance payment allowable charges
Automated FEDWIRE System
award period
cash management
cash on hand
closeout period
credit balance
current value of funds rate
delayed disbursement
delivery
direct deposit
disbursement
early payment
Electronic Statement of Account (ESOA)
electronic funds transfer (EFT)
enrolled
enrollment period
excess cash
excess funds
Federal Reserve Bank (FRB)
FEDWIRE
generally accepted accounting principles (GAAP)
Grant Administration and Payment System (GAPS)
idle cash
immediate need
issuing checks
liquidation period
master check
multiple disbursement
National Finance Center (NFC)
Office of the Chief Financial Officer (OCFO)
payment period
peak enrollment period
performance period
reimbursement payment
suspension period
UCC-1 statement

Reference:

- 34 CFR 668.161

4.1 Overview of Cash Management

Schools that participate in Title IV programs are responsible for establishing and maintaining an internal financial management system that effectively:

- promotes sound cash management of Title IV funds,
- minimizes the financing cost to the federal government for making Title IV funds available to schools and students, *and*
- minimizes accruing costs for students who receive Title IV loans.

To ensure adequate cash management practices, a school must have in place a cash management system that adheres to federal regulations and other standards. A school's cash management practices are governed by:

- generally accepted accounting principles (GAAP),
- standards prescribed by the federal Office of Management and Budget (OMB),
- U.S. Department of Treasury regulations, *and*
- U.S. Department of Education (ED) regulations.

At a minimum, a school should establish internal cash management standards and practices to ensure that:

- the school official who authorizes requests for federal funds knows the school's available funds balance when making requests;
- the cash balance maintained for all programs is no more than the minimum needed to cover immediate disbursements (referred to as "immediate need");
- the school's cash management system tracks drawdowns and disbursements of funds, showing that for every drawdown there is an equal disbursement (however, this is not necessarily the case for adjustments); *and*
- the school's cash management system contains adequate controls so that the school does not spend more funds than it has authority to spend (except in limited circumstances, a school may not request or hold excess funds for future disbursements).

4.2 Projecting Cash Needs

A school on advance payment must determine the amount of funds it needs before it transmits a request to the Grant Administration and Payment System (GAPS). The amount requested must be limited to the minimum amount needed to make disbursements, so that excess funds do not exist after disbursements are made. The amount must be enough to meet:

- Federal Pell Grant disbursements to students,
- the federal share of Federal Supplemental Educational Opportunity Grant (FSEOG) disbursements to students and administrative cost allowance (ACA),
- the federal share of Federal Work-Study (FWS) payroll disbursements and ACA,
- the federal share of Federal Perkins Loan disbursements and ACA, *and*
- Federal Direct Loan disbursements.*

***Direct Loan funding requests must be made separately; they cannot be combined with cash requests for other Title IV funds.**

The following equation may be used to calculate projected cash needs:

Anticipated Disbursements
– Balance of Cash On Hand
– Anticipated Recoveries
– ACH/EFT Cash in Transit
= *Projected Cash Needs*

In general, a school's request for funds should not exceed its immediate need.

Immediate Need

Immediate need is defined as the amount of Title IV program funds a school needs to make disbursements within three business days following the date that the school receives the funds. This definition of immediate need applies to all Title IV program funds, regardless of whether the school draws down funds through Automated Clearinghouse/Electronic Funds Transfer (ACH/EFT) or through FEDWIRE. Receiving amounts beyond immediate need may result in excess cash.

Immediate need is determined by the amount of cash a school needs to make disbursements to students within a specified period of time. As long as the school makes disbursements within that time period, including disbursements made by properly issuing checks, it has satisfied the immediate need standard.

Special Program Considerations

To accurately determine the total amount of Title IV program funds needed to make disbursements, a school must consider certain program-specific requirements for each Title IV program.

Federal Pell Grant Program

A school may pay Federal Pell Grants to students only on the basis of a valid Institutional Student Information Record (ISIR) or Student Aid Report (SAR). A school must establish a system for tracking the status of these documents and determining when a student's Federal Pell Grant award is ready to be paid.

The maximum amount of Federal Pell Grant funds a school may draw down is based on the school's Federal Pell Grant authorization, as reported to the school in its Electronic Statement of Account (ESOA). The first ESOA received by a school for an award year contains ED's estimate of the amount of funds the school will need to make first disbursements to students. As the award year progresses, the school receives adjusted authorizations on the basis of student payment information it reports.

Campus-Based Programs

Each campus-based program—Federal Supplemental Educational Opportunity Grant (FSEOG), Federal Work-Study (FWS), and Federal Perkins Loan—requires that awards made to students be a combination of both federal and nonfederal funds.

To accurately determine its immediate cash need for campus-based programs, a school must calculate the portion of disbursements from each program that may be made up of federal funds. *The amount of funds drawn down represents only the federal share.*

- For the Perkins Loan Program, if a school deposits its federal funds in its Perkins Loan fund, this eliminates any excess cash condition. However, if a school draws down those funds, it must expend them within three business days.

The maximum amount of federal funds a school may draw down from each campus-based program is based on the school's allocation for that program, as reported to the school in its Official Notice of Funding from ED.

For the FSEOG Program, a school must time its drawdowns to coincide with the date it expects to disburse FSEOG funds to students. FSEOG disbursements must be made within three business days following the date the funds are drawn down.

For the FWS Program, a school must time its drawdowns to coincide with its payroll dates. A school must estimate the amount of federal funds needed to meet payroll for a given pay period and draw down only the appropriate federal share of wages to be paid. Student wages must be paid within three business days following the date funds are drawn down.

For the Federal Perkins Loan Program, a school must determine whether the cash available in its Federal Perkins Loan fund is sufficient to make loan advances to students. A school may draw down the Federal Capital Contribution (FCC) only if the amount of Federal Perkins Loan funds on hand is not enough to cover disbursements. A school must time its drawdown of FCC to coincide with the dates it expects to advance (disburse) loans to students.

William D. Ford Federal Direct Loan Program (Direct Loan Program)

Reference:

- http//:gapsweb.ed.gov

Reference:

- *Direct Loan School Guide*
- Direct Loan Bulletin (DLB)-98-18
- DLB-98-38

Direct Loan funding requests are initiated only by schools that participate in the William D. Ford Federal Direct Loan Program (Direct Loan Program) under school origination (Option 2). The Loan Origination Center (LOC) initiates funding requests for schools that participate under school origination (Option 1) and under Standard Origination.

Unlike the Federal Pell Grant Program and the campus-based programs, there is no set school allocation or authorization level for the Direct Loan Program. Schools participating in the Federal Direct Loan Program determine drawdown amounts on the basis of the amount of funds needed to make loans to eligible borrowers. The school draws down only the net amount of the loan. Loan fees are deducted by ED prior to drawdown.

A Direct Loan school estimates the amount of funds it needs to make anticipated disbursements on an ongoing basis. A school can use the Direct Loan Program software or its own school computer software to calculate the amount of funds needed. Loan records flagged in the system as "eligible for payment" will be included in the computer-generated estimate of funds needed. The school may need to adjust this figure to account for Direct Loan funds on hand and anticipated recoveries. For each loan eligible for payment, the Direct Loan Program software deducts a 4 percent loan fee from the gross disbursement amount and counts only the net amount of the disbursement in the estimate of funds needed.

A school is not required to collect a signed, completed promissory note from a borrower before *drawing down funds* for that borrower. However, a school may not *disburse funds* to any borrower until it has received the borrower's signed, legally enforceable promissory note.

4.3 Grant Administration and Payment System (GAPS)

Reference:

- http//:gapsweb.ed.gov

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- GAPS *Payee Guide*

(Note: A new *Payee Guide* will be issued by ED during the summer of 1999.)

ED has a centralized financial management system called the Education Central Automated Processing System (EDCAPS). EDCAPS is designed to integrate ED's separate financial processes, including financial management, contracts, purchasing, grant administration, and payment management.

EDCAPS improved ED's financial management performance by integrating four system modules into a single system:

- Financial Management Systems Software (FMSS)
- Recipient System (RS)
- Contracts and Purchasing Support System (CPSS)
- Grant Administration and Payment System (GAPS)

The EDCAPS module that directly affects schools is GAPS.

GAPS provides full financial management support services in a single system. Functions supported by GAPS include everything from award authorizations to disbursing funds and to final grant close out.

***GAPS controls funds for both Title IV and non-Title IV programs.**

In addition, GAPS is the central repository for payment transactions of schools that receive funds* from ED through the Office of the Chief Financial Officer (OCFO). GAPS is a system; OCFO is the office within ED that administers the system. A school uses GAPS to request funds for:

- the Federal Pell Grant Program
- the Federal Supplemental Educational Opportunity Grant (FSEOG) Program
- the Federal Work-Study (FWS) Program
- the Federal Perkins Loan Program
- the Federal Direct Loan Program (Option 2 schools only; Option 1 and Standard Origination schools do not request [draw down] funds from GAPS.)

GAPS uses the latest in funds-delivery systems and financial management technologies (such as relational databases, Internet technology, and a Windows environment). Using these technologies allows for such customer-service improvements as easy system access to request funds and report expenditures, user-friendly retrieval of award and payment histories, and immediate update and notification of changes in awards, such as authorization changes.

When ED implemented GAPS, it changed its procedures for schools that receive and manage ED funds. These procedural changes include how schools request funds.

Accessing GAPS

Reference:

- http//:gapsweb.ed.gov

***All temporary user IDs and passwords expire July 31, 1999.**

Schools request federal funds electronically via GAPS. To request funds, the school must access the GAPS External Access System.

- To log on, the user must enter an ID and password.*
- To obtain a permanent user ID and password, a school completes the External Security Access form. This form can be accessed through the GAPS Web site or the GAPS Payee Hotline and faxed to (202) 401-0006.

The school then requests funds by program (Federal Pell Grant, FSEOG, Federal Perkins Loan, FWS, or Direct Loan). The screen contains the amount of Title IV funds the school has available to draw down.

Alternatively, schools can also call the GAPS Payee Hotline at 1-888-336-8930 between 8 a.m. and 8 p.m. (Eastern Time) to request funds. Requests made after 2 p.m. are not processed by GAPS until the next business day.

- A school may also call the GAPS Payee Hotline if it has problems receiving its payment under GAPS.

To practice using GAPS, access the GAPS Web site and click on "training." Then enter "gapsuser" as the ID and "training" as the password. The user will be able to enter data for a fictional school, while becoming familiar with the screens.

4.4 Requesting Funds

Before discussing how funds are requested, two terms need to be defined– grantee and payee.

Reference:

- GAPS *Payee Guide*

Under GAPS, a *grantee* is an entity (not a person) that applies for and receives a grant award from ED; a *payee* is an entity (not a person) identified by the grantee to request and manage federal funds on behalf of the grantee. The grantee and payee may be the same entity or different entities. For

Title IV aid purposes, the grantee is the financial aid office and the payee is the business office.

Schools request funds for all Title IV program expenditures directly from the federal government, with the exception of the Federal Family Education Loan (FFEL) Program. FFEL Program funds are obtained by schools from banks, savings and loan organizations, credit unions, and other financial institutions that serve as FFEL Program lenders.

Award Periods

Reference:

- GAPS *Payee Guide*

***Schools that are having problems with their program authorizations should contact their program office. See Appendix D for a list of the program offices.**

Before a school requests funds, it should understand the award periods for GAPS program authorizations.* The length of the award periods vary by program and authorizing statute. The award period dictates when the payee can request funds. There are four award periods:

1. performance
2. liquidation
3. suspension
4 closeout

Performance Period

****However, schools may draw down funds no later than June 30 of the award year of their authorization.**

The performance period is the period between the grant award *begin date* and the grant award *end date*. During this period, schools can draw down funds.** However, in order to do so, schools have to obligate funds to students (such as submitting to ED disbursement records for students eligible for the Federal Pell Grant Program).

The performance period is six years and three months. During this period:

- payees may request payments,
- payees may modify payment requests,
- payees may adjust drawdowns, and
- the Office of Student Financial Assistance Programs (OSFAP) may make changes to the grant award's authorizations.

Once the performance period ends, the closeout process begins, which includes liquidation, suspension, and closeout.

Liquidation Period

*The length of this period is OSFAP program specific.

The liquidation period* is one month and immediately follows the performance period. During this period:

- no new authorizations may be processed against a grant award,
- payees may request payments for expenditures incurred during the performance period, and
- payees may adjust drawdowns for expenditures incurred during the performance period.

The last date a school can drawdown funds from ED is the end of this period.

Suspension Period

**The length of this period is OSFAP program specific.

The suspension period** is one month and follows liquidation. During the suspension period, no payment actions can take place without the approval of the program office. ED program offices use this period to prepare for final closeout.

Closeout Period

Immediately following the suspension period, the grant award is closed and any remaining funds are deobligated.

For the 1999-2000 award year, a grant's:

- performance period lasts from July 1, 1999 to September 30, 2005;
- liquidation period lasts from October 1, 2005 to October 31, 2005;
- suspension period lasts from November 1, 2005 to November 30, 2005; and
- closeout begins on December 1, 2005.

Methods of Receiving Funds

Schools can receive funds from ED using Automated Clearinghouse/ Electronic Funds Transfer (ACH/EFT) or FEDWIRE.

Automated Clearinghouse/Electronic Funds Transfer (ACH/EFT)

One way ED sends funds to schools is using ACH/EFT. Once schools request funds and these requests are approved,* the next business day GAPS electronically transfers the school's payment through the Federal Reserve Bank (FRB) network to the school's depositor account at the school's bank.

ACH/EFT requests made by 3:00 p.m. (Eastern Time) will be deposited the next business day. Requests made after 3:00 p.m. will be deposited the second business day after the request.

Before a school begins disbursing funds, it should always check its bank account for an ACH deposit from ED to make sure that a payment has been received. A school should keep records of all payments it has requested. These records provide an audit trail of funds requested and help the school reconcile it accounts with GAPS.

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- GAPS *Payee Guide*

***Because drawdowns are done online, schools will receive immediate notification if their fund requests are not approved in GAPS.**

FEDWIRE

The other method by which schools can receive funds is using FEDWIRE. After a school's GAPS request is accepted, the funds are then transferred directly from ED through the FRB network to the school's depositor account.

Schools are allowed to make same-day payment requests. To receive a same-day payment, the transaction must be completed no later than 2 p.m. (Eastern Time). Any requests made after 2 p.m. will have funds deposited the next business day.

A school should always check its bank account to make sure that a FEDWIRE payment has been deposited before it begins disbursing funds. A school should also keep records of all payments it requests to help reconcile its accounts with GAPS.

A school may also request FEDWIRE or ACH/EFT payments by calling the GAPS Payee Hotline directly. This method is only used when GAPS is malfunctioning or the school is having difficulty accessing it. The GAPS Payee Hotline accepts phone call questions between 8 a.m. and 8 p.m. (Eastern Time).

Reference:

- GAPS *Payee Guide*

Payment Methods

Institutions are paid using one of the following four payment methods:

- advance (*before* Title IV program funds are disbursed to students and/or parents)

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.162(a-e)

- just-in-time (*near* or *on the date* Title IV funds are disbursed to students and/or parents)

- reimbursement (*after* institutional funds have been disbursed to students and/or parents)

- cash monitoring (either *before* or *after* institutional funds have been disbursed to students and/or parents)

ED determines the payment method each school uses.

Reference:
- 34 CFR 668.162(e)(1)(2)

Advance Payment Method

Most schools are paid in advance. Under the advance payment method, GAPS accepts a school's request for cash and electronically transfers the amount requested to the school's bank account via ACH/EFT or FEDWIRE.*

A school's advance request for cash may not exceed the amount of funds the school needs within three business days to make disbursements to students. A school must make the disbursements as soon as administratively feasible, but no later than three business days following the date the school receives the funds.

Alternatively, schools can pay their students with their own funds before receiving funds from ED.

If the payee is paid in advance, the school requests funds by using the GAPS External Access System Web site or by calling the GAPS Payee Hotline at 1-888-336-8930 between 8 a.m. and 8 p.m. (Eastern Time).

Reference:
- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.162(b)
- GAPS *Payee Guide*

***Under the Recipient Financial Management System (RFMS), schools will continue to receive their initial authorization.**

Reference:
- http//:gapsweb.ed.gov

Just-in-Time Payment Method

The just-in-time payment method is a new payment method available for the Federal Pell Grant Program and the Direct Loan Program for the first time in the 1999-2000 award year under a pilot project. A small group of schools will participate under the pilot project for the 1999-2000 award year.

- Although no more schools are being accepted for 1999-2000 award year, a school can sign up to participate during the 2000-01 award year by contacting the:

Reference:
- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.162(c)
- DCL-P-98-5

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.162(c)
- DCL-P-98-5

Reference:

- See Section 6.1 of this book for more information about RFMS.

U.S. Department of Education
ATTN: Just-in-Time Program
Institutional Financial Management Division
AFMS
P. O. Box 2381
Washington, DC 20026-07981

Under this payment method, a school electronically submits a disbursement record for the Federal Pell Grant Program no earlier than five days before the actual date of disbursement. The request includes the date and amount of the disbursement the school will make or has made to each student or parent. For each request Recipient Financial Management System (RFMS) accepts for a student or parent, RFMS automatically sends a transaction to GAPS requesting funds to be directly deposited into the school's bank account through EFT on or before the disbursement date reported by the school. This whole process takes no longer than 24 to 36 hours. In effect, the disbursement record drives the placement of funds into the school's bank account. No initial authorization is necessary, and no interaction with GAPS is necessary for the school.

If for some reason a student is not eligible to receive the Federal Pell Grant amount requested at the time the funds are actually disbursed, the school must report the funds for which the student is eligible within 30 days of the date that the school becomes aware of the change. A school will be permitted to disburse funds to a student or parent before submitting a record of that disbursement to ED. However, if the student's eligibility for those funds has changed by the actual date of disbursement, any adjustment must be reported.

A school can use the funds received for another student. If the school does so, it must ensure that all the required student transactions are sent to RFMS with the 30-day reporting rules. The school must also do a negative disbursement for the ineligible student and do an off-setting positive disbursement for the student who actually received the funds.

Schools using the just-in-time payment method are exempt from several cash management requirements. These exemptions include:

- the three-day-use rule required for the advance payment method;
- reverifying student eligibility for a Federal Pell Grant award at the time of disbursement;
- maintaining Federal Pell Grant funds in an interest-bearing account; and
- rules governing excess cash.

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- GAPS *Payee Guide*
- 34 CFR 668.162(c)

Using this payment method, schools will have only a nominal amount of excess cash created by minor period adjustments. Because ED will modify new requests for funds after deducting any adjustments reported by the school, large amounts of excess cash should not occur.

The just-in-time-payment method will enable the delivery system to provide the most current payment information to students and other system users, thereby reducing burden related to reconciling payment data. This method will improve reconciliation between a school's financial aid office and business office. Moreover, the just-in-time close-out process should be simplified because adjustments are made throughout the year and all records should be in agreement. This payment information on the Federal Pell Grant Program will form the core of the individual student account that is the basis for the Modernization Blueprint integrated delivery system. By providing funds on the basis of the current student-level data, this payment method will strengthen ED's ability to monitor the integrity of Title IV programs by reducing the potential for the misuse of funds.

Reimbursement Payment Method

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- GAPS *Payee Guide*
- 34 CFR 668.162(d)

A school may be placed on reimbursement if ED determines that there is a need to monitor the school's use of federal funds or if a school has monetary liabilities that need to be recovered by administrative offset (for example, owing funds to ED as a result of an audit or program review finding).

The reimbursement procedure begins with the school filling out a Request for Advance or Reimbursement Form (SF-270) and sending it to the regional office for approval. If the request is approved, the ED regional office processes a payment request in GAPS.

Under the reimbursement payment method, a school must make credit or cash disbursements to eligible students before it may submit a request to the ED regional office for cash for Federal Pell Grant, campus-based, and Direct Loan funds (Option 2 schools). The amount of the request may not exceed the amount of actual disbursements the school made to students included in the request.

A school may be required to submit documentation that each student included in a reimbursement request was eligible to receive and did receive payment for Title IV program funds that the school is requesting.

The ED regional office approves the request for reimbursement and electronically transfers the requested amount to the school's bank account if:

- the school properly determined each student's eligibility for Title IV program funds;

- the school made payments to students for the correct amounts of Title IV program funds;

- the school submitted any required documentation that shows that each student included in that request was eligible to receive and was disbursed Title IV funds; and

- sufficient funds are available to the school in the school's GAPS account.

Cash Monitoring Payment Method

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*

Reference:

- 34 CFR 668.162(e)(1)

When ED places a school on the cash monitoring method, ED requests funds after the school makes disbursements to students and parents. The school will then be paid using either the advance payment method or the reimbursement payment method.

If a school is paid using the advance payment method and ED approves the request for funds, ED processes the request in GAPS and electronically transfers the amount requested to the school's bank account via ACH/EFT or FEDWIRE.

A school's advance request for cash may not exceed the amount of the actual disbursements the school made to students and parents included in that request.

Reference:

- 34 CFR 668.162(e)(2)

If a school is paid using the reimbursement payment method, the school must first make disbursements to eligible students and parents before ED processes a request for payment in GAPS. The amount of the request may not exceed the amount of actual disbursements the school made to students and parents included in that request.

***Required documentation may be modified by the U.S. Secretary of Education.**

A school may be required to submit documentation* that each student included in a request was eligible to receive and did receive payment for Title IV program funds for which the school is requesting reimbursement.

ED approves the request for reimbursement and GAPS electronically transfers the requested amount to the school's bank account if:

- the school accurately determined each student's eligibility for Title IV program funds;

- the school accurately determined the amounts of Title IV program funds paid to students and parents;

- the school submitted any required documentation to support its request for reimbursement; and

- sufficient funds are available to the school in the school's GAPS account.

William D. Ford Federal Direct Loan Program (Direct Loan Program)

Reference:

- *Direct Loan School Guide*

Procedures used to draw down funds for the William D. Ford Federal Direct Loan Program (Direct Loan Program) differ from those used to draw down other Title IV funds. In addition, requests for Direct Loan funds may not be combined with requests for other Title IV funds.

There are two methods by which a school may handle funding requests. These methods depend on whether a school participates under Option 2 *or* Option 1 or Standard Origination.

Schools Participating Under Option 2

Option 2 Direct Loan schools initiate their own funding requests. These requests are made separately from those requests made for Pell Grant, campus-based, and other ED program funds because Direct Loan funds come from a different congressional appropriation.

Once a school has determined its immediate cash needs, a drawdown request is made to GAPS. The school can either make a drawdown request on the GAPS Web site or by calling the GAPS Payee Hotline at 1-888-336-8930. GAPS requests cannot be made using EDExpress.

Option 2 schools should retain copies of their drawdown requests for Direct Loans to record those requests and to resolve any payment problems with GAPS.

GAPS edits a school's drawdown request and creates an ACH/EFT payment file for transmittal to the Federal Reserve Bank (FRB). Any problems with requests are transferred to a holding file so ED personnel can either approve the transaction or contact the school to resolve the problem.

The FRB receives the ACH/EFT file and transfers funds directly to the school's bank account. A school's bank should receive funds within 48 to 72 hours after the school transmits the drawdown request. The FRB notifies ED if there is a problem with an ACH/EFT transmission or if a school's transaction is rejected. ED then contacts the school to resolve the problem.

Schools Participating Under Option 1 or Standard Origination

Schools participating in the Direct Loan Program under either of these options do not initiate funding requests. Rather, their funding requests are handled by the Loan Origination Center (LOC).

The LOC requests funds for schools using these participation options on the basis of accepted anticipated disbursement records submitted by a school. For borrowers' records to be included in a funding request, a school must send the borrowers' loan origination records and promissory notes to the LOC, and the LOC must accept the records.

Approximately 30 to 45 days before the anticipated disbursement dates listed in the loan origination records, the LOC sends an Anticipated Disbursement Listing (ADL) to the school that shows anticipated disbursements by borrower and by loan type. The school reviews the list and, if necessary, updates or adjusts the information with the LOC, through the change record process.

The LOC requests a school's funds from GAPS five days before the anticipated disbursement date. The same day the request is made, the LOC creates and sends an electronic Actual Disbursement Roster (ADR) to the school that lists individual borrowers, their loan types, and their disbursement amounts, (minus loan fees), as well as the total amount of funds included in the request. A school should retain copies of all ADRs.

The funds received from a drawdown must be deposited directly into a school's bank account.

4.5 Maintaining Funds

Cash management regulations published December 1, 1994 and November 29, 1996 contain guidelines that schools must follow to adequately manage federal funds.

Bank Account

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.163(a)(1)

All schools must maintain a bank account into which ED transfers (or a school deposits) Title IV program funds. This account also must meet certain federal requirements. (Funds received from the Federal Family Education Loan [FFEL] Program are excluded from the requirements.) The bank account must be federally insured or secured by collateral of value reasonably equivalent to the amount of Title IV program funds in the account.

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.163(a)(2)(i)(ii)(A)

Regardless of the type of account or number of accounts in which a school maintains Title IV funds, the school must properly indicate that the account(s) contain federal funds. A school may meet this requirement by:

- notifying its bank of the accounts that contain federal funds and retaining a copy of that notice in its records *or*
- ensuring that the name of the account clearly includes the word "federal funds."

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.163(a)(2)(B)

Public institutions and those institutions that have "federal funds" in the name(s) of their bank account(s) do not have to file a UCC-1 statement.

- Public institutions are exempt from this requirement because they generally do not obtain credit in the same manner as non-public institutions.

However, if a private school notifies the bank that the account has federal funds, but does not include these words in its name, the school must file a UCC-1 statement (which discloses that the account contains federal funds) with an appropriate state or local government entity; the school must maintain a copy of this statement in its records. The format and content of the forms used for these statements vary from state to state. UCC-1 statements and information about filing them are available from the state corporation council or secretary of state in your state. Blank UCC-1 statements are available from local legal office supply stores.

A non-public institution that either chooses not to insert "federal funds" in the name of its bank account containing these funds, or is precluded from doing so, must file a UCC-1 statement. Public institutions are exempt from this requirement since they generally do not obtain credit in the same manner as non-public institutions.

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.163(b)(1-3)
- 34 CFR 668.163(d)

A school is not required to maintain a separate bank account for Title IV program funds. However, in certain circumstances, a school may be required to maintain all Title IV program funds in a bank account that contains no other type of funds. This is the case if ED determines that:

- the school's accounting and internal control systems
  - – do not identify cash balances of Title IV program funds maintained in the school's bank account as readily as if those funds were maintained for each program in a separate account, or
  - – do not identify adequately the interest or investment revenue earned on Title IV program funds maintained in the school's bank account; *or*

- the school's financial records
  - are not maintained on a current basis,
  - do not accurately reflect all Title IV program transactions, or
  - are not reconciled at least monthly; *or*
- the school has otherwise failed to comply with record-keeping and reporting requirements required by applicable federal regulations.

Interest-Bearing Account

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.163(c)(1)(2)

A school must remit to ED, at least annually, the interest or investment revenue earned on Title IV program funds maintained in an interest-bearing or investment account.

For any award year, a school that participates in the Federal Perkins Loan Program must maintain its Perkins Loan funds in:

- an interest-bearing account that is federally insured or secured by collateral of value equivalent to the amount of Title IV program funds in the account *or*
- an investment account that consists predominantly of low-risk income-producing securities, such as obligations issued or guaranteed by the U.S. government. If a school maintains federal funds in an investment account, the account must remain sufficiently liquid to make required disbursements to students.

A school that does not participate in the Federal Perkins Loan Program must maintain other Title IV program funds in an interest-bearing account if the school does not meet the criteria listed in the next paragraph. If applicable, the account must meet the same, just-cited, interest-bearing or investment-account requirements.

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.163(c)(3)(i-iii)

A school is not required to maintain an interest-bearing account if:

- the school drew down less than $3 million from Title IV programs in the previous award year and anticipates that it will draw down less than $3 million in the current award year;
- the school demonstrates by its cash management practices that it would not earn more than $250 in interest by maintaining in an interest-bearing account the total amount of Title IV program funds that it will draw down during the current award year; *or*

Reference:
- 34 CFR 668.163(c)(4)

Reference:
- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.163(d)

Reference:
- *Student Financial Aid Handbook: Institutional Eligibility and Participation*

- the school requests those funds using the just-in-time payment method.

Schools that request funds using the just-in-time payment method are exempt from having an interest-bearing account because the payment method ensures expeditious accounting and funds disbursement.

A school may retain up to $250 per year of the interest or investment revenue earned on Title IV program funds (except for Federal Perkins Loan funds) during an award year. The school must put all interest and investment revenue earned for Perkins Loans into its revolving Perkins Loan fund.

If a school is not required to maintain separate accounts, it must maintain accounting and internal control systems that:

- identify the cash balance of the funds of each Title IV program that is included in the institution's interest-bearing or investment account *and*

- identify the earnings on Title IV funds maintained in the school's interest-bearing or investment account.

In addition, a school must maintain its financial records accordingly.

4.6 Obtaining Federal Family Education Loan (FFEL) Program Funds

The Federal Family Education Loan (FFEL) Program includes Federal Stafford Loans (subsidized and unsubsidized), Federal PLUS Loans (for parents), and Federal Consolidation Loans.

FFEL Program loans are made to students and parents by banks, savings and loans, credit unions, and other financial institutions. A school obtains a borrower's funds directly from the borrower's lending institution or servicer.

Federal statute requires that proceeds from Stafford and PLUS Loans be disbursed directly to schools for delivery to borrowers.

Generally, for FFEL Program funds, the following distinction is made between the terms "disbursement" and "delivery."

- *Disbursement* refers to the process by which a lender cuts a check and sends it to a school or transmits funds to a school electronically. Disbursement is considered to have occurred on the date that a lender writes and mails a check or deposits funds directly into a school's bank account.

- *Delivery* refers to the process by which a school makes FFEL funds available to a borrower. A school may deliver loan proceeds by paying a borrower directly or by crediting a student's account. Delivery is part of the disbursement process.

Reference:

- 34 CFR 668.161(a)(3)(iii)
- 34 CFR Part 682.604

However, in terms of cash management, "disburse" means the same as delivering loan proceeds. There are three methods by which a lender may disburse FFEL funds to a school on behalf of a student or parent borrower—electronic funds transfer (EFT), master check, or individual check.

Electronic Funds Transfer (EFT) and Master Checks

A school may receive a borrower's FFEL funds from a lender by EFT. To do so, a school must enroll in EFT with the lender to enable the lender to deposit FFEL funds directly into the school's designated bank account.

A school may also receive a borrower's loan proceeds by master check if the school and lender have entered into an agreement to use master checks. A master check is a single check, written by a lender, that contains all the lender's FFEL Program funds for the school's borrowers as of a given disbursement date.

Both EFT and master check disbursements must be accompanied by a list of names, Social Security numbers, and loan amounts of borrowers who are to receive a portion of the EFT or master check disbursement. The list enables a school to identify individual borrowers to whom loan proceeds must be delivered.

A school may request loan proceeds by EFT or master check no earlier than 13 days before the first day of a student's enrollment period. If a Stafford Loan borrower is subject to delayed disbursement, disbursement by EFT or master check may not be requested until the 24th day of the student's enrollment period.

Reference:

- See Section 4.11 of this book for more information about delaying the return of FFEL funds under certain circumstances.

A school must obtain a borrower's written authorization to receive his or her loan proceeds by EFT or master check. Authorization may be given in the borrower's loan application, or it may be obtained separately. If written authorization to disburse by EFT or master check is not given in the borrower's loan application, it must be obtained not more than 30 days before the beginning of the enrollment period for which the loan is intended.

- The EFT approval is for the school to accept loan proceeds from the lender and to credit the student's school account. It is not for direct payment to the student's bank account.

Individual Checks

A school may receive a borrower's Stafford Loan or PLUS Loan proceeds from a lender in the form of an individual bank check made co-payable to the borrower and the school. The school endorses the check and then delivers the loan proceeds to the borrower. A school must deliver loan proceeds to a student borrower within 30 days of the date the school receives the check.

Reference:

- See Section 4.11 of this book for more information about the deadlines for returning FFEL funds that cannot be disbursed to a student or parent borrower in the form of EFT, master check, or paper check.

Co-payable PLUS checks must be sent directly to a school by a lender. A school must deliver PLUS loan proceeds to a parent borrower within 30 days of receiving a check. However, a school is not required to endorse a PLUS check before sending it to a parent borrower. The school may require the parent borrower to return the PLUS check the borrower endorsed to the school for the school's endorsement. The school then deposits it and credits the student's account.

In no case may a school request loan proceeds by co-payable check earlier than 30 days before the first day of student's enrollment period. If a Stafford Loan borrower is subject to delayed disbursement, a school may not deliver Stafford Loan proceeds until 30 days after the beginning of the student's enrollment period.

4.7 Disbursing Title IV Program Funds

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.164(a)(1)

Cash management regulations contain a specific definition of the term "disburse." Title IV program funds are disbursed when a school credits a student's account with funds or pays a student or parent directly with either:

- Title IV funds received from ED,
- Federal Family Education Loan (FFEL) Program funds received from a lender, or
- institutional funds used before receiving Title IV program funds.

Before a school disburses Title IV program funds, the school must notify the student of the amounts of Title IV funds expected to be received and how and when those funds will be paid.

However, there are three exceptions when crediting institutional funds labeled as Title IV funds to a student's account before receiving the actual Title IV program funds that *do not result immediately in a Title IV disbursement:*

Reference:

- 34 CFR 668.164(a)(2)

***However, a school can make a credit disbursement with institutional funds earlier than ten days before the first day of classes of a payment period, but it is not a Title IV aid disbursement.**

Reference:

- 34 CFR 668.164(c)(1)(2)

****A school may endorse a lender's FFEL check or FFEL PLUS loan check and issue that check to the borrower as payment of the loan proceeds.**

Reference:

- 34 CFR 668.164(c)(3)

Reference:

- 34 CFR 668.164(c)(4)

Reference:

- 34 CFR 668.164(d)

- If a school credits a student's account with the institutional funds before receiving Title IV funds *earlier than ten days before the first day of class of a payment period*, the Title IV disbursement occurs on the tenth day before the first day of class*; *or*

- For a student whose loan funds are subject to 30-day delayed disbursement, if a school credits the student's account with institutional funds before receiving Title IV program funds *earlier than 30 days after the first day of the payment period*, the Title IV loan disbursement occurs on the 30th day after the beginning of the payment period; *or*

- If a school simply makes a memo entry for billing purposes or credits a student's account and does not identify it as a Title IV credit (for example, an "estimated Federal Pell Grant"), the disbursement does not occur until the posting is subsequently converted to an actual credit.

To disburse Title IV program funds to a student or to deliver the proceeds of a FFEL Program loan to a student borrower or parent borrower, a school may:

- have a check drawn from a federal funds account or from the school's general account

- pay a student or parent directly

  – by check** or other means payable to the student and requiring the student's endorsement or certification (or, in the case of a parent borrowing under the Direct Loan Program or FFEL Program, requiring the endorsement or certification of the student's parent); *or*

  – by initiating an EFT to a bank account designated by the student (or, in the case of a parent borrower, an account designated by the parent); *or*

  – by dispensing cash to the student for which the school obtains a signed receipt from the student.

- credit a student's account at the school. In the case of Direct Loans, a school must credit the student's account, if the school uses student accounts.

Federal regulations require schools to notify a student or a parent borrower of the amount of Title IV program funds the student can expect to receive and how and when those funds will be paid.

Paying Students or Parents Directly

If a school does not credit a student's account with payments of Title IV program funds for allowable charges, it must pay the student or parent directly.

Some schools use more than one payment method. For example, a school might credit a student's account for tuition and fees, then pay remaining Title IV funds directly to the student.

Issuing Checks

A school may pay a student or parent by issuing a check and charging it directly to its federal program accounts. If, however, a Direct Loan school uses student accounts, it must credit the student's account.

For loans made under the FFEL Program, the check issued may be the co-payable check sent to the school by a lender. A school may endorse a lender's Federal Stafford Loan or Federal PLUS Loan check and issue that same check to the student borrower or parent borrower as payment of the loan proceeds. Or the school can have the borrower sign the check, the school endorses the check and deposits it, and then the school credits the student's account. The funds credited are either used to pay allowable charges or, with the borrower's permission, are held as funds in excess of allowable charges.

Reference:

- 34 CFR 668.164(c)(2)(i)

For all Title IV program funds, a school may issue checks drawn from the bank account in which the school maintains federal funds or from the school's own account.

To properly issue a check for Title IV funds, including FFEL funds, a school must release, distribute, or otherwise make the check available by:

- mailing the check to the student or parent *or*
- notifying the student or parent that the check is available, on request, for immediate pickup.

EFT

A school may pay a student or parent by electronically transmitting Title IV program funds directly to the student's or parent's designated bank account. The school must obtain written authorization from the student or parent to pay Title IV funds through EFT.

Crediting a Student's Account

Crediting a student's account (at a school) is defined as posting a payment of funds to a student's account. In the context of federal regulations governing Title IV programs, a student's account may be any record-keeping system that a school uses to post institutional charges and payments of Title IV program funds. The system may be manual or automated.

Reference:

- 34 CFR 668.164(d)(1)(i-iii)

If a school credits a student's account with Title IV program funds, it may apply those funds only to allowable charges. Allowable charges include:

- tuition and fees,
- board, if the student contracts with the school for board, *and*
- room, if the student contracts with the school for room.

Reference:

- 34 CFR 668.164(d)(2)(i)(ii)

If a school obtains a student's or parent's written authorization to use Title IV program funds to pay other costs, allowable charges may also include:

- institutional charges that were incurred by the student for educationally related activities in addition to those not requiring an authorization *and*
- minor prior-year charges if these charges are less than $100 or if the payment of these charges does not, or will not, prevent the student from paying his or her current educational costs.

However, in general, Title IV program funds are only used to pay for educational expenses a student incurs in the period for which these funds are provided. When students request that Title IV funds be used for prior-year charges, schools should handle such requests in a very judicious manner.

A school may not require a student or parent to authorize the use of Title IV funds to pay for other costs. Furthermore, if a student or parent opts to give the such authorization to a school, the school must allow the student or parent to modify or rescind the authorization at any time.

New

Reference:

- HEA, Section 445c

An institution may, at a student' request, make Federal Work-Study payments directly to the student's bank account or may credit a student's account at the institution for tuition and fees, room and board, and other institutionally provided goods and services.

Reference:

- 34 CFR 668.164(d)(3)

Reference:

- 34 CFR 668.165(a)(3)(i)(ii)
- DCL-CB-96-8

Title IV Loan Programs

When a school disburses Direct Loan funds by crediting a student's account at the school, the school must first credit the student's account with those funds to pay outstanding, current, and authorized charges.

When a school credits a student's account with Federal Perkins Loan funds (whose promissory notes contain provisions effective on July 1, 1996), Direct Loan funds, or Federal Family Education Loan (FFEL) Program funds received by EFT or master check, it must notify the student or parent in writing or electronically no earlier than 30 days before nor no later than 30 days after crediting the student's account of:

- the date and amount of the disbursement,
- the borrower's right to cancel all or a portion of the loan, and
- the procedures and time by which the borrower must notify the school that he or she wishes to cancel all or a portion of the loan.

In addition, if the school sends the notice electronically, it must require the recipient of the notice to confirm receipt of the notice and the school must maintain a copy of that confirmation.

The school must return the loan proceeds, cancel the loan, or do both, if the school receives a request from the borrower within 14 days after the date the school sends the disbursement notice, *or* if the schools sends the disbursement notice more than 14 days before the first day of the payment period, by the first day of the payment period. In addition, a school may return the loan proceeds, cancel the loan, or do both, if the school receives the notice after this deadline, but *it is not required to do so.*

A school must notify a student or parent in writing or electronically regarding the outcome of any cancellation request.

Separation of Functions

The business office and financial aid office are located in one office at some schools. Although this setup may provide better student services, it is important to remember that federal regulations require a school to divide the functions of authorizing payments and disbursing funds so that no single office or individual has the responsibility for both functions for any student receiving Title IV funds.

- For example, under the Perkins Loan Program, the financial aid office may award Perkins Loan funds. The business office may be responsible for collecting and handling promissory notes, billing borrowers in repayment, collecting payments, authorizing deferments, cancelling loans, counseling students, and reporting on Perkins Loans to NSLDS. A school may contract with a third-party servicer for some of these activities, and some schools have a separate loan office that is part of either the business office or the financial aid office.

Title IV Credit Balances

Reference:

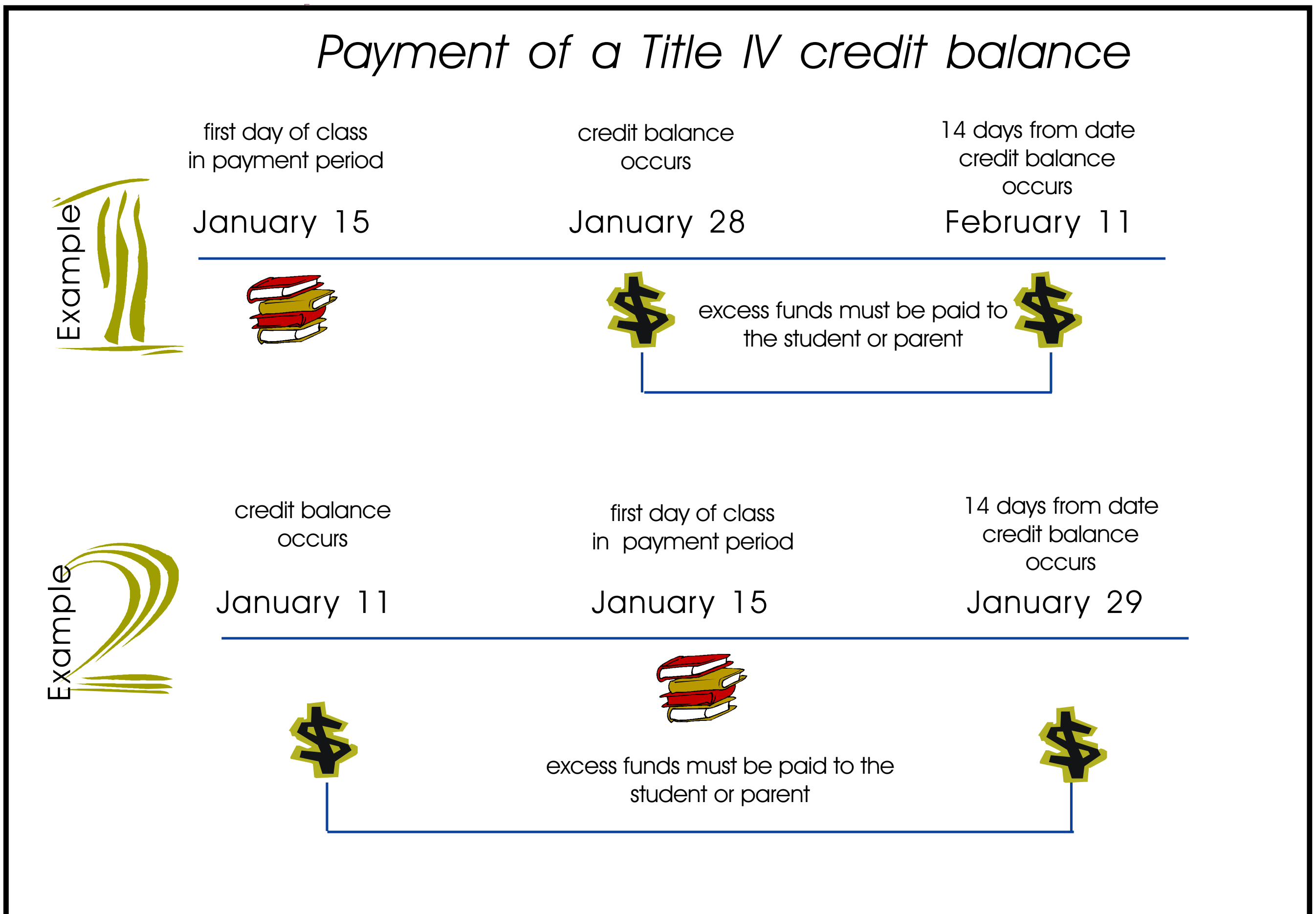
- 34 CFR 668.164(e)

When a school applies Title IV funds *to a student's account* and determines that the amount of the funds exceeds allowable charges the school assessed the student, the school must pay the credit balance directly to the student or parent borrower as soon as possible, but no later than the 14-day deadlines described below. The only exception is when the school has the student's permission to hold credit balances.

A school must pay a credit balance to a student or notify the student or parent that the check is available on request within 14 days of:

- the date the balance occurs, if it occurs on or after the first of class of a payment period; *or*
- the first day of class of a payment period, if it occurs before the start of class of that payment period; *or*
- the date the student rescinds authorization given to the school to hold Title IV credit balances.

The two examples on the next page illustrate how schools can pay a Title IV credit balance to a student's account.



Reference:

- 34 CFR 668.2(b)(iii)

Reference:

- 34 CFR 668.164(f)(1)(2)(i)(ii)

***Schools may incur liabilities if they disburse Title IV funds earlier than allowed by the 10-day rule.**

Early Disbursements and Multiple Disbursements

A school may not make a payment to a student or a student's account until the student is enrolled for classes for the applicable payment period or enrollment period. Federal regulations define "enrolled" as the status of a student who:

- has completed registration requirements (except for paying tuition and fees) at the school the student is attending *or*

- has been admitted into an educational program offered predominantly by correspondence and has submitted one lesson, completed by the student without the help of a representative of the school, after acceptance for enrollment.

Except for students subject to the 30-day delayed disbursement, the earliest a school may pay a student directly or credit a student's account with Title IV funds is ten days before:

- the first day of an enrollment period for which that disbursement is intended;*

- for clock-hour or credit-hour nonstandard programs, the second and subsequent disbursements may not be made until the student has completed all of the hours for which he or she has already been paid;

- for clock-hour, nonterm credit hour, and nonstandard term programs, the second disbursement of Direct Loan Program funds or the second delivery of FFEL Program funds cannot be made until the later of:

  – the calendar midpoint between the first and last scheduled days of the loan period *or*

  – the date determined by the school that the student has completed half of the academic coursework in the loan period for nonterm credit hours or nonstandard term programs *or* the date determined by the school that the student has completed half of the clock hours in the loan period for clock- hour programs;

- for credit-hour programs with standard terms, if the loan period is more than one payment period, the school shall deliver loan proceeds at least once in each payment period (for example, one semester); *and*

- for credit-hour programs with standard terms, if the loan period is one payment period (for example, one semester), the second disbursement of Direct Loan Program funds or the second delivery of FFEL Program funds cannot be made until the calendar midpoint between the first and last scheduled days of class of the loan period.

In any case, whatever the academic program, the school must deliver FFEL proceeds or disburse Direct Loan proceeds in substantially equal installments, and no installment may exceed one half of the loan.

Furthermore, for the Direct Loan Program, if one or more payment periods have elapsed before the school makes a disbursement, the school may include loan proceeds for completed payment periods in the disbursement. Also, if the loan period is equal to one payment period and more than one-half of it has elapsed, the school may include loan proceeds for the entire payment period in the disbursement.*

Delayed Disbursements

A student borrowing under the Direct Loan Program or FFEL Program is subject to delayed disbursement if the student:

- is enrolled in the first year of an undergraduate program of study *and*

- has not previously received a Direct Loan Program or an FFEL Program loan.

Reference:

- 34 CFR 682.604(c)(7)(8)
- 34 CFR 685.301(b)(5)(6)

Reference:

- 34 CFR 682.604(c)(6)(i)
- 34 CFR 685.301(b)(3)(i)

Reference:

- 34 CFR 682.604(c)(6)(ii)
- 34 CFR 685.301(b)(3)(ii)

Reference:

- 34 CFR 682.604(c)(9)
- 34 CFR 685.301(b)(7)

Reference:

- 34 CFR 685.301(b)(4)(i)(ii)(8)

***If a school is not in a state, it is not required to make more than one disbursement.**

Reference:

- 34 CFR 668.164(f)(3)

A school may not release the first disbursement of a Direct Loan Program or FFEL Program loan to a first-year, first-time, undergraduate student borrower until 30 calendar days after the first day of the student's program of study for which the loan is intended. The reason: The student might change his or her program of study, drop out, or take a leave of absence within the first 30 calendar days of the enrollment period. Because of this, the student may not receive loan proceeds until after he or she has been enrolled and attending the new program of study for 30 calendar days.

Reference:

- HEA, Section 428G (b)(1)

This requirement does not apply to:

- a school that has a cohort default rate of less than 10 percent for the three most recent fiscal years for Direct Loan Program loans and FFEL Program loans,
- a parent who borrows a Direct PLUS Loan or Federal PLUS Loan on behalf of a student, *or*
- a school that has a cohort default rate of less than 5 percent for loans for study-abroad programs, if those programs are approved by the home institution.

Late Disbursements

Reference:

- 34 CFR 668.164(g)(1) (i)(ii)

A formerly eligible student may be eligible to receive a late disbursement. An institution may make a late disbursement if:

- for the Pell Grant, FSEOG, and Perkins Loan Programs, the student is no longer enrolled at the school for the award year *and*
- for the Direct Loan and FFEL Programs, the student is no longer enrolled at the school as at least a half-time student for the loan period.

Reference:

- 34 CFR 668.164(g)(2) (i)(ii)(A-E)

Depending on the Title IV program, there are conditions a school must meet before disbursing funds to an ineligible student. To be eligible for a late disbursement, the student must have accrued costs while enrolled that were not satisfied by any other aid. A school may pay a formerly eligible student, if before the date the student became ineligible the school:

- has received a SAR or ISIR with an official, calculated Expected Family Contribution (EFC);
- for a Pell Grant, has a valid SAR or ISIR;
- for an FSEOG Program award or a Perkins Loan award, has awarded the student a grant or loan;

- for a Direct Loan Program loan, has created an electronic origination record for that loan;
- for an FFEL Program loan, has certified a loan application for that loan; *and*
- for a Direct Loan or a FFEL Program loan, has checked that a first-year, first-time undergraduate borrower completed the first 30 days of enrollment of his or her program of study.

A school may *not* make a late second or subsequent disbursement of a Federal Direct Subsidized Loan, Federal Direct Unsubsidized Loan, or a FFEL Stafford Loan, unless the student has graduated or successfully completed the period of enrollment for which the loan was intended.

Reference:

- 34 CFR 668.164(g)(3)(i)(ii)

If a student or parent borrower qualifies for a late disbursement, a school may make a late disbursement if the funds are used to pay for educational costs that the school determined were incurred for the period in which the student was enrolled and eligible.

- The school must make the disbursement to the student no later than 90 days after the student becomes ineligible.

Holding Title IV Credit Balances

Reference:

- 34 CFR 668.165(b)(1)(iii)(5)(i-iii)

A school, as fiduciary for the benefit of a student, may hold amounts of Title IV funds that exceed allowable charges *if* the student or parent borrower authorizes the school to retain the credit balances to assist the student or parent borrower in managing those funds.

If a student authorizes a school to hold credit balances, and if the school chooses to hold the credit balances, the school:

- must identify the student and the amount of the credit balance the school holds for that student in a subsidiary ledger account designated for the purpose of holding funds;
- must maintain, at all times, an amount of cash in its bank account that is at least equal to the amount of the credit balance the school holds for the student; *and*
- may retain any interest earned on the student credit balances.

Reference:

- 34 CFR 668.165(b)(5)(iii)

However, notwithstanding any authorization the school obtains from the student or parent, the school must pay any remaining balance on the loan funds by the end of the loan period and any other remaining Title IV aid funds by the end of the last payment period in the award year for which they were awarded.

If ED determines that a school has failed to meet the standards of financial responsibility, the school may not hold the credit balance for any purpose.

Student/Parent Authorizations

Reference:

- 34 CFR 668.165(b)(1)(i)(ii)

A school must obtain written authorization from a student or parent to:

- disburse Title IV program funds to the student or parent by EFT,
- use Title IV program funds to pay for charges other than allowable charges, *or*
- hold Title IV credit balances.

Reference:

- 34 CFR 668.165(b)(2)(i)(ii)

A school may not require a student or parent to provide an authorization for any of these activities. If a student or parent opts to authorize a school to perform any of these activities, the school must allow the student or parent to rescind the authorization at any time.

An authorization is good for the period during which the student is enrolled at the school. An initial authorization will continue to be valid for subsequent award years or enrollment periods as long as the student or parent does not rescind it.

- A break in enrollment does not invalidate the authorization.
- The written authorization must give the student or parent the opportunity to cancel or modify the provisions of the original authorization.

4.8 Excess Cash

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.166(a)(1)(2)

Excess cash is any amount of Title IV program funds (other than FFEL Program or Federal Perkins Loan Program funds) that a school does not disburse to students by the end of the third business day following the date the school received the funds. Except as described in the next section on tolerances, a school must reallocate funds to other programs or promptly return to ED any amount of excess cash in its bank account.

- Schools under the just-in-time payment method are exempt from this requirement as they won't ever have excess funds.

A school may have excess cash in its account if:

- it is as a result of a reduction to reported expenditures on a closed award*;

***GAPS no longer reports expenditures.**

- the school has unused funds and expects no more funding from ED;
- the school earned interest or investment income on federal funds in excess of the amount it is allowed to retain;
- funds were drawn down and not used in accordance with immediate need rules; *or*
- the school owes ED for disallowed program expenditures found during an audit or program review.

Disallowed Program Expenditures

In respect to disallowed program expenditures discovered during an audit or program review, a school is considered to have excess cash if:

- the school draws down funds, credits the student's account, and then the student no longer attends the school.
  - The school must cancel the disbursement and return funds to its federal cash account. This may cause the school to have excess cash, depending on its cash needs.
- the school draws down more money than it spends.
  - Because the unused funds were drawn down and deposited in the school's cash account, the school must return the money as excess cash or adjust its next drawdown if it is within the timelines allowed by regulations.
- the school draws down funds and disburses them improperly.
  - This is considered a liability. Because the school had use of the improperly disbursed funds, the school is charged interest on the use of those funds.
  - This situation occurs when the school credits the student's account with Title IV financial aid and fails to cancel the awards when the student doesn't attend *or* when the school fails to provide matching (nonfederal) funds for the campus-based programs.

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.166(b)(1)(i)(A)(B)

Tolerances

If a school draws down Title IV program funds in excess of its immediate cash needs, the school may maintain the excess cash balance in its bank account only if:

- the amount of the excess cash balance is less than 3 percent of the school's total prior-year drawdowns for a period of peak enrollment during which the drawdown occurs *or*

- the amount of excess cash balance is less than 1 percent of its total prior-year drawdowns for any other period.

Reference:

- 34 CFR 668.166(b)(1)(ii)

If the school qualifies for either of these criteria, the school must eliminate its excess cash balance within the next seven days by disbursing Title IV funds for students for at least the amount of the balance.

Reference:

- 34 CFR 668.166(b)(2)(i-iv)

A period of peak enrollment occurs when at least 25 percent of a school's students start classes during a given 30-day period. For any award year, a school calculates the percentage of students who started classes during a given 30-day period by:

1. determining the number of students who started classes during that period for the prior award year in which the 30-day period began;

2. determining the total number of students who started classes during the entire prior award year in which the 30-day period began;

3. dividing the number of students in step 1 by the number of students in step 2; *and*

4. multiplying the result obtained in step 3 by 100.

Reference:

- 34 CFR 668.166(b)(3)

To determine total prior year drawdowns, a school participating in the Direct Loan Program may include the total amount of loans guaranteed under the FFEL Program for students attending the school during that year.

Liabilities

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.166(c)(1)(i)(ii)

If ED finds that a school maintains excess cash balances in its bank account that are greater than those allowed, ED may:

- require the school to reimburse the federal government for costs incurred in making those excess funds available to the school *and*

- initiate proceedings to fine, limit, suspend, or terminate the school's participation in one or more Title IV programs.

Reference:

- 34 CFR 668.166(c)(2)(i)

When examining whether a school has maintained excess cash, ED considers a school to have issued a check to a student on the date that the check cleared the bank, unless the school can demonstrate that it issued the check shortly after writing it.

Reference:

- 34 CFR 668.166(c)(2)(ii)

If ED finds that a school has maintained excess cash, ED calculates (or requires the school to calculate) a liability for maintaining excess cash in accordance with ED-established procedures. Under those procedures, ED assesses a liability that is equal to the difference between the earnings that the excess cash balance would have yielded if it had been invested under the applicable current value of funds rate and the actual interest earned on the balance.

The current value of funds rate is an annual percentage rate, published in a Treasury Financial Manual (TFM) bulletin, that reflects the current value of funds to the U.S. Department of Treasury (Treasury) on the basis of certain investment rates. The current value of funds rate is computed each year by averaging investment rates for the 12-month period ending every September. The TFM bulletin is published annually by Treasury. Each annual bulletin identifies the current value of funds rate and the date that rate becomes effective.

4.9 Methods for Returning Funds

Procedures for returning funds vary, depending on the circumstances under which a school is returning funds. If ED notifies a school that it must return funds, the notification usually contains specific instructions the school must follow.

Excess Cash

Reference:

- GAPS *Payee Guide*

Excess cash exists when any grant award in GAPS has a positive cash balance. This occurs when the school, as a payee, has net draws that exceed expenditures for one or more of the payee's grant awards three business days after the funds have been deposited into its bank account.

Payees should reconcile their grant awards on a regular basis and are required to resolve any excess cash balances throughout the year. A payee can resolve an excess cash balance by:

- returning excess cash to ED *or*
- reallocating drawn funds among grant awards in GAPS to comply with immediate cash needs.

Reference:

- See Section 4.2 of this book for more information about immediate need.

If a school must return funds to ED, the school must follow appropriate procedures for returning funds that are under $100,000 by check and by FEDWIRE for funds that exceed $100,000.

To assist payees in reconciling their internal accounting records with ED's information in GAPS, payees can access GAPS Activity Reports through the GAPS External Access System.

If a school fails to resolve cash balances, the school as a payee may be subject to penalties.

Closed Award

If a school needs to return funds as a result of reducing expenditures on a closed award, the school simply sends a remittance to the lockbox at:

U.S. Department of Education
P. O. Box 952023
St. Louis, MO 63195-2023

The remittance should include the school's DUNS number and Document Award Number; it also should indicate that the remittance is for a closed award.

***FAR is a general ledger of the Financial Management System Software (FMSS) under EDCAPS.**

The collections for closed awards are posted in FAR* (Receivable) as unbilled collections under the school's DUN number. No receivables are established, nor is the school's account adjusted in GAPS. The funds are posted to Miscellaneous Receipts and ultimately returned to the U.S. Department of Treasury.

Federal Pell Grant

For any award year that is more than five years old (the 1992-93 award year as of September 30, 1998 and the 1993-94 award year as of September 30, 1999), decrease adjustments are both cancelled and closed. The federal Pell Grant system no longer processes these adjustments and GAPS no longer posts the adjustments to the school's account or adjusts expenditures. Schools should no longer submit Decrease Award Reports as described in the various post-deadline adjustment letters published every fall.

Schools should return closed Federal Pell Grant award funds to the St. Louis lockbox address used for returning unbilled and voluntary refunds, as listed above.

Funds from an Audit or Program Review

Reference:

- GAPS *Payee Guide*

If a school owes payments to ED, a copy of its Final Audit Determination Letter (FADL) or Final Program Review Determination (FPRD) letter is sent to the Receivables and Cash Receipts Team (RCRT) where an account receivable is established for the school. A school is billed for the

Reference:

- GAPS *Payee Guide*

disallowed amount of funds, accrued interest, and penalties through ED's billing agent. Payment instructions are included with the bill.

- If a school owes ED $100,000 or more, it must remit payment through its financial institution by FEDWIRE.
- If a school owes ED less than $100,000, it must remit payment by check to ED's billing agent.

A school may not reduce amounts reported as net drawdowns on its GAPS Activity Reports to account for expenditures disallowed as a result of an audit or program review. Any Title IV funds returned for this purpose will not be credited to a school's GAPS account. Unless otherwise directed by the FADL or FPRD letter, a school may not attempt to adjust its prior year FISAPs or Federal Pell Grant processed payment information to reflect expenditures disallowed as a result of an audit or program review, nor may it make repayments directly to any FFEL Program lender or to the Direct Loan Servicing Center. However, sometimes ED requires schools to:

- buy loans,
- send in payments on behalf of students,
- repay a lender, and
- send in a separate check for Direct Loan liabilities.

Interest Earned

Reference:

- GAPS *Payee Guide*
- 34 CFR 668.163(c)

If a school receives funds through advance payment and retains those funds in an interest-bearing or investment account, the school is required to return to ED, at least annually, the amount of interest or investment earnings that exceeds the amount the school is allowed to retain. However, a school must retain and use all interest or investment income earned on Federal Perkins Loan funds for authorized purposes of the program.

If a school does not return required amounts of interest or investment income, future payments of Title IV program funds may be reduced (offset) by the amount of that income.

Schools must return excess interest income to ED by check, indicating on the check that it represents interest earnings. The check should be sent to:

U.S. Department of Education
P.O. Box 952023
St. Louis, MO 63195-2023

The remittance should also include the school's DUNS number and Document Award Number; it should also indicate that the remittance is for interest earned.

4.10 Releasing Campus-Based Funds

Reference:

- *Student Financial Aid Handbook: Campus-Based Programs Reference*
- Dear FAA Letter CB-98-7 (LD)

***Beginning August 1999, electronic reallocations (included in the FISAP software disk) will be sent to schools. Institutions must complete the E40-4P form and submit it to ED by August 27, 1999.**

If a school does not use its total allocation of funds for Title IV campus-based programs (Federal Perkins Loan, Federal Supplemental Educational Opportunity Grant, and Federal Work-Study), the school is required to release unexpended amounts to ED.

In August each year, ED electronically sends schools a letter and a Campus-Based Reallocation Form (E40-4P) advising them that they must release funds not spent by June 30 of that year*. In addition, schools are asked to determine the amount of FSEOG and FWS funds they have spent by that date and the amount of Federal Capital Contribution that they did not request from GAPS by the same date. Later, a school also must determine the actual amounts spent as of the end of the award year and during GAPS liquidation period it must adjust drawdowns for expenditures incurred during the GAPS performance period. Funds are reduced by the amounts released for the campus-based programs authorization in GAPS for that award year. ED will reallocate these "released" funds by September 30th of the subsequent award year as supplemental allocations for other schools that qualify to receive them for that award year.

4.11 Returning Federal Family Education Loan (FFEL) Program Funds

Reference:

- *Student Financial Aid Handbook: Direct Loan and FFEL Programs Reference*

It is sometimes necessary for a school to return all or a portion of a loan made under the Federal Family Education Loan (FFEL) Program to the lender that made the loan. FFEL Program funds must be returned if:

- a student fails to enroll for an enrollment period for which the loan is intended;
- a student fails to meet satisfactory academic progress or other eligibility requirements (for example, entrance loan counseling) at the time the loan is due to be delivered;
- before funds are delivered to a student, the student withdraws or drops out during an enrollment period for which the loan is intended;
- a refund is due a lender as a result of a refund calculation; *or*

- a student or parent requests a school to return FFEL Program funds to reduce the borrower's principal loan balance.

Regulations provide for three periods for disbursing and returning FFEL Program funds:

1. initial period
2. conditional period
3. return period

The requirement that a school "return funds no later than ten business days" means that a school must mail a check or initiate an EFT of FFEL funds to the lender by the close of business of the last day of the return period.

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.167(b)(1)(i-iii)

Initial Period

Funds that a school receives from a lender in the form of a check made payable to the borrower or copayable to the borrower or institution must be delivered to the borrower no later than 30 calendar days after the school receives the funds.

Funds received by the school through EFT or master check must be delivered to the borrower no later than ten business days after the school receives the funds.

- Beginning July 1, 1999, such funds must be delivered to the borrower within three business days of being received.

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- 34 CFR 668.167(c)(1)

Conditional Period

A school has ten business days after the last day of the initial period to deliver FFEL funds received by EFT or master check only if:

1. the school determines that the student has not, but can complete the required number of clock hours or credit hours in the preceding payment period within those ten business days *or*

2. the student has not met all of the FFEL eligibility (such as registering for the required number of hours, completing entrance loan counseling, or being reinstated to satisfactory academic progress), but the school expects the student to meet those requirements during this ten business day period.

Reference:

- 34 CFR 668.167(d)(1)

A school on the reimbursement payment method may delay returning funds to the lender for an additional 30 calendar days from the date the school receives the funds by EFT or master check.

Return Period

Reference:

- *Student Financial Aid Handbook: Direct Loan and FFEL Programs Reference*
- 34 CFR 668.167(b)(2)(3)

For FFEL Program funds that a school does not disburse by the end of the initial or conditional period, as applicable, the school must return those funds to the lender promptly but no later than 10 business days from the last day of the initial or conditional period. However, if a student becomes eligible to receive FFEL Program funds during the return period, the school may deliver those funds to the student provided that the delivery of funds is made on or before the last day of the return period.

If a student fails to enroll or fails to meet other loan eligibility requirements, a school must return loan proceeds to a lender within 30 days of the school determining that the student is not eligible for the loan.

Reference:

- 34 CFR 682.607(c)(1)

If a student withdraws from school, a school must return loan proceeds to a lender within 60 days of the date:

- the student officially withdraws,
- the student is expelled, *or*
- the school determines the student unofficially withdrew.

If a student drops out and does not notify a school, the school must determine the withdrawal date within 30 days of the *earliest* of:

- the date the school became aware that the student had dropped out;
- the expiration of the academic term in which the student dropped out; *or*
- the expiration of the enrollment period for which the student was charged.

Reference:

- 34 CFR 682.607(c)(2)

If a student is on an *approved* leave of absence and does not return to school, a school must return loan proceeds to a lender within 30 days of the *earlier* of:

- the expiration date of the leave of absence *or*
- the date the student notifies the school that he or she will not be returning to the institution after the expiration of an approved leave of absence.

Reference:

- 34 CFR 668.22(h)(2)(v)

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- *Direct Loan School Guide*
- DLB-97-33

If a student is on an *unapproved* leave of absence, a school must return loan proceeds to a lender within 60 days of the student's last recorded date of attendance.

When a school returns FFEL Program loan proceeds to a lender, it must notify the student or parent borrower, in writing, that the funds have been returned.

The amount of the Title IV program portion of the overpayment allocated to the FFEL Program must be returned to the appropriate program account or accounts at the school within 30 days of the date that the student repays the overpayment.

4.12 Returning Direct Loan Funds

Schools must return Direct Loan funds in the event of excess cash, idle cash, or refunds.

Excess Cash

Like other Title IV funds, Direct Loan excess cash is any amount of Direct Loan funds a school does not disburse to borrowers by the end of the third business day following the date the school receives the funds. This includes excess funds that result from adjusting downward the amount of an actual disbursement.

There are two methods by which schools may return excess Direct Loan cash to ED:

- *Check*—A check may be used if the amount of excess cash is less than $100,000. The check should include all excess funds that need to be returned at a given time, not just those for an individual borrower or type of loan. The check and/or accompanying correspondence should include the school's Direct Loan school code and the academic year the funds should be applied against. The school should also indicate that the funds are excess Direct Loan cash. The check should be mailed to:

  Loan Origination Center
  Attn: Excess Cash
  P.O. Box 2011
  Montgomery, AL 36102-2011

- *FEDWIRE*—An electronic-transfer method must be used if the amount of excess cash is $100,000 or more. A school must instruct its bank that the reason for the remittance is Direct Loan excess cash. The funds must be returned to:

Compass Bank Account No. 70726726
ABA No. 0620 01186

Reference:

- *Direct Loan Reconciliation Game Workbook*

***The provision in 34 CFR 668.166(b) concerning the amount of an excess cash balance does not apply to idle cash.**

Idle Cash

For the Direct Loan Program, cash that has been disbursed becomes idle cash* if and when it is returned to the school's Title IV account(s). The return must be reflected in the school's general ledger or subsidiary ledger. This return may be due to a refund or may be due to other circumstances.

- For example, a student might receive a disbursement but later decide to return all or a portion of the loan and return the funds to the school *or* a student might receive a disbursement and later withdraw or change his or her enrollment status so that all or a portion of the loan proceeds must be returned to the school's Title IV account(s).

A school may maintain idle cash in its federal bank account for up to seven calendar days in order to disburse to, or on behalf of, the student or other students.

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- *Direct Loan School Guide*
- DLB-97-33

Refunds

When a student withdraws, drops out, or leaves school for any reason within 120 days from the disbursement date, a school must determine if a refund is due the Direct Loan Program and, if so, the amount of the refund. The school can handle the refund either by adjusting actual disbursements downward *or* by sending a check to the Loan Origination Center (LOC).

- *Adjusting actual disbursements*—If a Direct Loan refund is due within 120 days of a loan's disbursement date, a school may process the refund by adjusting an actual disbursement.

  When an Option 2 school adjusts a disbursement downward, it returns the net adjustment amount (the amount the borrower returns) to the school's "federal" bank account. An Option 1 or Standard Origination school returns the net adjustment amount to the Loan Origination Center. These methods of returning refunds benefits borrowers, because they are not responsible for loan fees or accrued interest on the refunded amount.

  With this method, the amount cancelled or adjusted is returned to the school's federal bank account, where it immediately must be

Reference:

- *Student Financial Aid Handbook: Institutional Eligibility and Participation*
- *Direct Loan School Guide*
- DLB-97-33

disbursed to other eligible borrowers or returned to ED as excess cash.

- *Sending a check*—A school might want to handle a Direct Loan refund as it handles an FFEL Program loan refund, that is, by sending a check to be applied as a payment to a borrower's account. Note, however, that it is to a borrower's advantage for a school to handle refunds by canceling or adjusting actual disbursements. If a check is used to return a refund, the borrower is responsible for loan fees and accrued interest on the amount refunded.

  If a school uses the check method, the school must also supply the information needed to apply the funds to the borrower's account. If a school is returning refunds for more than one student, it should send only one check and attach a list of borrowers' names, loan ID numbers, and refund amounts. The school must indicate on the check, list, or other accompanying correspondence that the funds are to be applied to borrowers' accounts as payments. The check and other information should be mailed to:

  Direct Loan Servicing Center
Attn: Payment Center
P.O. Box 746000
Atlanta, GA 30374-6000

If the student withdraws or drops below half-time enrollment *or* the school identifies an overaward after 120 days from the date of disbursement, the funds must be returned to the Direct Loan Servicing Center as a payment to the borrower's account. Schools should not make an electronic adjustment to the borrower's account. This procedure applies to all Direct Loan schools.

A borrower may also return Direct Loan funds (see the chart on the next page).

REFUND OF LOAN FEE: THE 120-DAY RULE

Refund (credit) of loan fee is given if—

School returns proceeds	Within 120 days of disbursement	***Always***
	More than 120 days after disbursement	***Only if complying with regulations/HEA***

Borrower returns proceeds	Within 120 days of disbursement	Not in repayment	***Always, unless written instructions otherwise***
		In repayment	***Only if written instructions***
	More than 120 days after disbursement	***No refund allowed***	